



Financial Services Committee – Hearing in Stockton, California

**“The Effects of the Foreclosure Crisis on Neighborhoods in California’s Central Valley:
Challenges and Solutions”**

September 6th, 2008

**Presentation from: Pam Canada, CEO
NeighborWorks® HomeOwnership Center Sacramento Region**

I would like to begin by thanking Chairman Frank, Chairwoman Waters, and the entire Financial Services Committee for their leadership in getting HR.3221 passed. I would especially like to thank the Committee for including the allocation of \$3.9 billion in CDBG funds, known as the Neighborhood Stabilization Fund, to be allocated to communities for the redevelopment of abandoned and foreclosed properties, investing in neighborhoods with measurable and lasting impact. And for the additional funding for housing counseling through Neighborhood Reinvestment Corporation that will provide help to thousands more families that are struggling to preserve their homeownership.

Welcome to Stockton for this important Hearing to address the impact of the foreclosure crisis on neighborhoods in the Central Valley of California.

NeighborWorks® HomeOwnership Center Sacramento Region is a premier member of the NeighborWorks network of not-for-profit organizations that are chartered by Neighborhood Reinvestment Corporation, dba NeighborWorks® America, and carry out a mission of work to provide stable, sustainable home ownership thru a comprehensive process that includes an emphasis on pre-purchase homebuyer education, flexible, responsible lending and post-purchase counseling for homeowners.

HR. 3221 included funding to support foreclosure prevention counseling and this meets a critical need for struggling homeowners in Stockton, the Sacramento Region, the State of California and across our nation. The most recent numbers show us that 1300 homes go into foreclosure every business day in California. Thank you for including counseling funding that will allow thousands more families to be served by qualified housing counseling agencies and undoubtedly preserve homeownership for hundreds of people in the Central Valley. NeighborWorks Sacramento is certified directly by HUD to provide housing counseling and homebuyer education and has signed our commitment to uphold the National Industry Code of Ethics and Conduct for Homeownership Professionals. We have provided foreclosure prevention information to thousands of people and individual help to hundreds of homeowners that are looking for a path to a reasonable solution that lets them keep their home. HR.3221 provides much needed funding for the capacity that this work requires and will preserve homeownership for thousands more people that are reaching out for help.

Stockton and the Central Valley have been particularly hard hit, consistently listed in the top of national rankings for number of foreclosures. There was a preponderance of sub-prime lending activity in Stockton and minimal pre-purchase education was offered or available in the Central Valley to mitigate this predatory practice. Homebuyers up and down the Central Valley and throughout the Region were told that they “better buy now or you will miss out”, so they grabbed the apparent opportunity to get that piece of the American Dream and bought a home that was not affordable for them on the first day they

closed that loan and moved in. To get the home they wanted, buyers used available sub-prime loan products, with low teaser rates and exorbitant adjustments over a short time frame, Option ARMs were affordable for the first 6 months if they only paid the minimum amount due. Rising home prices in the Central Valley created a sense of urgency for new homebuyers and they were easy targets for predatory lenders using loan products that were appealing because the family could buy a beautiful 4-bedroom home in a nice neighborhood and live out their dream of ownership and stability for their family.

If more of these new homebuyers had received quality, multi-lingual, non-biased homebuyer education such as that provided by NeighborWorks certified housing counselors, they would have been equipped to make informed choices about their lender, their financing options, and their affordability. The effect of quality housing counseling has been documented in several studies. A study by Freddie Mac found that borrowers who had received individual pre-purchase counseling were 34% less likely to become delinquent than those who had none. This was later substantiated by City University of New York that surveyed first-time homebuyers to find that 11% said they were in default, while only 6.8% of similar NeighborWorks-counseled homebuyers nationally had defaulted. The same study also determined that counseled borrowers received significantly lower interest rates than those who did not have pre-purchase counseling. Through our pre-purchase education, prospective homebuyers learn the process and potential risk factors of home buying. Quality, responsible education provides the homebuyer with the ability to make informed choices. Informed prospective homebuyers will know if they are ready to buy, what they can afford to buy and how to shop for a responsible lender and a suitable loan product. Pre-purchase education is the ultimate foreclosure avoidance action for homebuyers and we encourage the Committee to lend its support to this work. The challenge remains in Stockton and the Central Valley, and indeed across the nation, to create informed consumers and foreclosure resistant borrowers. This is accomplished through quality pre-purchase homeownership education. Funding for this counseling is minimal yet its impact is extraordinary and should be central to all housing programs.

One of the first large Foreclosure Prevention workshops offered in the Central Valley was held here in the City of Stockton and sponsored by Congressman McNerny and Congressman Cardoza, along with State Senators Machado and Agazharian. NeighborWorks was pleased to provide several certified counselors to address the questions of some of the approximately 500 people that attended that one workshop and we have continued to participate in many more workshops of this type throughout our 6-county region. In early 2007, in response to the overwhelming demand on our available capacity, we gathered a group of critical stakeholders and created the *Sacramento Region Coalition for HomeOwnership Preservation*, and subsequently created a *NeighborWorks Foreclosure Prevention Workshop* that we continue to hold every week, delivered in English, Spanish and Russian, at our HomeOwnership Center. To address the diversity in our region and reach homeowners that may be blocked from getting quality information due to language barriers, we have partnered with another non-profit to provide client referrals along with translation services which now allow us to provide our education and counseling services in 10 different languages. (Bosnian, Serbian, Croatian, German, Hmong, Spanish, Russian, Serbian, English, and American Sign Language.)

We are also a member of the *Northern California Housing Counseling Network* and the *Sacramento Regional Partners for HomeOwnership*, connecting and collaboratively working together with others to address the issues and share ideas and best practices.

Recently we were an invited participant at a small gathering of servicers and counselors, hosted by Commissioner DuFuchard at the California Dept. of Corporations. This was an open and productive sharing of challenges and solutions between the represented companies, with everyone agreeing that regular meetings with open dialogue need to continue. The Commissioner has offered to host quarterly meetings with solution-oriented agendas.

NeighborWorks Sacramento and Los Angeles NHS were recently invited to meet with HomEq Services and we spent 4 hours together at their shop, discussing criteria for loan modification considerations, challenges of counselors, borrowers, servicers and

investor issues. These examples of collaborative efforts, with practical and realistic sharing of challenges and solutions among invested participants will help to move us all forward towards diminishing the foreclosure numbers in the Central Valley, and the State of California.

Additional efforts from federal, state and local governments are needed if we are to improve the foreclosure situation. A recent survey of foreclosure prevention service providers by the California Reinvestment Coalition presented 5 clear pieces that are recommended for legislative action: 1) prohibit lenders and brokers from steering borrowers into loans that are more costly than they are qualified for, 2) require the translation of key loan documents for non-English borrowers, 3) ban prepayment penalties, 4) ban yield spread premiums, and 5) create more accountability for mortgage brokers.

With respect to HR. 3221, it is imperative that lenders participate in the Hope for Homeowners (FHA refinance) program. From the very day this was announced we began receiving many calls and inquiries from homeowners that are hoping they can be included in this program and keep their home – there are several eligibility criteria for the borrowers but it still comes down to the servicer and investor agreeing to accept a principal shortfall. If we can't get them to agree now to a reasonable loan modification that preserves their principal, it seems unlikely that there will be easy agreement when they are asked to accept a reduced payoff. We urge the Committee to keep the dialogue going with lenders and investors so they can see the advantage of participating in this important program.

The Neighborhood Stabilization Fund is an important component of the bill and represents a significant opportunity for the Central Valley and many other communities to take action in areas that are now blighted by foreclosed and abandoned homes. We ask that the Financial Services Committee members ensure that the best and most current data is used when developing the formulas for the CDBG funds, such as the data from First American Core Logic which is being used by the Federal Reserve. The freshest data will provide the best opportunity for the Central Valley and for California. We encourage HUD to use the number of units impacted by foreclosure, not simply the number of properties as the measure of foreclosure in the formula, since multi-family properties contribute a large portion of the total number of properties.

When thinking of solutions one thing is clear – homeowners, working with certified housing counselors, need more time to resolve these issues with their lenders. One such proposal in Congress is HR 6076, the Home Retention and Economic Stabilization Act of 2008, sponsored by our local Congresswoman Doris Matsui. It calls for a “time out” on foreclosure proceedings for those homeowners that are current in their payments, giving eligible borrowers a conditional deferment period and a window of opportunity to preserve their homeownership. HR 6076 has our support and is co-sponsored by 40 members of Congress, including Congressman Cardoza.

We request that you encourage lenders/servicers to participate in bulk REO discounts and consider writing down properties in bulk for sale to capable and experienced organizations, like NeighborWorks Sacramento and Visionary Home Builders in Stockton, that would refurbish and resell to low and moderate income families for homeownership. This would reduce the inventory held by the lender, build homeownership opportunity, and address the growing number of vacant properties that are lining our neighborhoods.

The negative impacts of foreclosure on communities are far reaching. Not only are people losing homes, communities are suffering economically, physically, and socially;

Communities suffer from increased crime – having multiple abandoned homes is proven to have a direct effect on the rise in crime in communities. Thieves are breaking into houses and stripping them of systems, wiring, and anything with value. Destruction of property and vandalism is making the homes more difficult to sell and it can actually take more money to renovate the homes than the potential sales price would cover in this market. Vacant properties are also a magnet for other forms of illicit activities, requiring added resources from the police and code enforcement services.

Cities and Counties are negatively impacted - not only from the added services required but also from the lower property values caused by foreclosed homes that have led to a smaller tax base. When this happens, local government must respond to the fiscal shortfall and, unfortunately, social programs and public services are often the first to be cut. The programs cut or eliminated are the very services that can help residents who are suffering from the foreclosure experience.

Area youth are displaced - a hard hit victim of foreclosure is the children. Foreclosure produces a negative environment for raising youth. Parents' stress seeps down to their children and manifests in many difficult ways. Moving the family can create instability for a child, they lose friends, teachers, sports teams, etc.. This can be extremely stressful to a child, leading to falling grades and low self-esteem that can be difficult to restore for a healthy optimistic future.

Communities are blighted by neglect – properties and whole neighborhoods begin to deteriorate. Deferred maintenance, unmowed lawns, pests move in, and a general lack of care can change the entire atmosphere in the community. Local and State governments have invested into neighborhoods over many years throughout the Central Valley, to revitalize them block by block. These neighborhoods are struggling to hold on as the housing crisis threatens to unwind their strides forward to a healthy thriving community. Health and safety issues are created as abandoned homes with swimming pools become breeding grounds for mosquitoes and increase the chance of West Nile Virus.

Finally, we ask that you resurrect the anti-predatory lending legislation. Yes, area lenders have tightened their underwriting criteria for now and sub-prime lending activity has been reduced but these are cyclical and if there is an opening, when the market returns there will be nothing in place to stop or monitor this destructive practice.

The Central Valley will benefit from the Neighborhood Stabilization Fund the housing counseling funds and would also benefit from the opportunity for REO bulk sales at discounted prices. NeighborWorks Sacramento has been serving homeowners from Stockton, Lodi, Modesto and Merced from our HomeOwnership Center about 40 minutes North in the City of Sacramento and by holding group and individual counseling appointments at various locations in Stockton. We have hired and trained additional counselors thanks in part to funding raised by California Reinvestment Coalition and from the National Foreclosure Mitigation Counseling funds. We have partnered with Washington Mutual, Citibank, Bank of America and have recently entered into an agreement with Countrywide, to provide our counseling services in Stockton. We have been working to build funding and resources from area government and NeighborWorks America to allow us to move ahead with our plans to open a NeighborWorks branch here in Stockton but have not fully secured the support needed at this time. We are hopeful that we can staff a branch here by the end of 2008 and increase the available foreclosure prevention counseling and homebuyer education in the Central Valley.

Thank you for the opportunity to address this field hearing of the Financial Services Committee.

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Pam Canada, CEO **NeighborWorks® HomeOwnership Center Sacramento Region**

Biographical Notes

Pam Canada is the Chief Executive Officer of NeighborWorks® HomeOwnership Center Sacramento Region, a non-profit, 501(c)(3) organization, a full-cycle lender and neighborhood revitalization corporation. Pam has worked in the housing and community development field for her entire career and has focused her efforts on providing affordable homeownership, financial education, and residential real estate business in her corporate positions as well as her work in the not-for-profit sector.

Prior to this position, Pam enjoyed over 20 successful years in the residential mortgage banking business, as Senior Vice President of a national bank and mortgage company, she directed the mortgage lending division in California, successfully achieving an annual retail loan volume of over \$400 million in her Division.

Joining NeighborWorks® Sacramento Region as a corporate sponsor and volunteer in 1991, she later volunteered her time as a member of the Loan Committee and was recruited onto their Board of Directors.

Pam has been the CEO of NeighborWorks® Sacramento Region since 1996. Pam's leadership has resulted in the organization moving from financial difficulty and 3 staff members, to a sustainable operating budget close to \$2 million and a highly qualified staff that is capable of achieving consistent results. NeighborWorks® Sacramento Region has grown in available resources and community influence, been certified by the U.S. Dept of the Treasury as a Community Development Financial Institution, approved by HUD as a housing counseling agency, licensed by the State Dept. of Real Estate and Dept. of Corporations, and has dramatically increased its neighborhood impact in the Sacramento Region.

Under Pam's leadership the organization opened its HomeOwnership Center in 1998 and has provided homebuyer education and affordable financing to thousands of families, invested millions of dollars into the Sacramento economy, improved and beautified hundreds of homes and dozens of blocks in our neighborhoods.

Pam gives her time and expertise to the community through her participation with local housing coalitions, national housing network, testimony to the State Senate Banking, Finance and Insurance Committee, serving on the Board of the National NeighborWorks® Association and the NeighborWorks® Advisory Council and has served on the Sacramento Children's Coalition and the Human Services Coordinating Council for the County of Sacramento, all for the purpose of revitalizing Sacramento neighborhoods and empowering its residents.